MOODY'S ANALYTICS

The Emerging Game-Changer for Credit and Risk Management

Is B2B Purchase Behavior the Ultimate Credit Barometer?

Executive Summary

This document exposes the limitations of conventional B2B credit analysis and details a dramatic approach that gives organizations a view into what customers and prospects buy and how their buying patterns change over time. Most important, it translates that behavior into a powerful measure of credit worthiness.

Moody's Analytics offers this information on business purchase behavior – adding up to over $1.6 trillion in B2B purchases across more than 20 million company locations. Properly applied, purchase behavior-based credit analysis can:

1. Reduce risk by providing early warning of financial distress in existing customers
2. Arm credit managers with more complete information to make fast, time-sensitive credit decisions
3. Provide valuable strategic insights into customer behavior

The B2B credit analysis dilemma: if payment data isn't enough, where do you turn for deeper insights?

Increasingly, credit managers and financial executives are recognizing the limitations of conventional business credit evaluations based on historical payment habits. Unfortunately, extensive financial information on the vast majority of companies has never been readily available. Of the approximately 27 million businesses in the US, some six million have employees. And of these, fewer than 15,000 are public. That means the vast majority of the companies with whom you are likely to interact are privately held, so much of their most valuable business information is not disclosed.

How do you sort through prospective customers to determine credit worthiness? Just as important, how can you tell which of your current customers could be spending much more with you, and which ones may be in financial retreat?

Chances are you strive to make these tasks easier by using a variety of traditional tools and information sources. You may subscribe to any number of information sources that provide company credit and payment history, as well as information about business demographics such as markets served, estimated sales (or actual sales, in the case of publicly traded companies) executive contacts, and locations.

You can also forage for additional information by searching the internet for publicly available information on targeted business categories, or on specific companies. Such searches yield a wide range of information sources, including company press releases, news articles, industry research and surveys, analyst reports and government studies. Then, there are new generations of business intelligence and enterprise search applications that can increase the volume of available company information even more, organize it more efficiently, and streamline access and sharing.

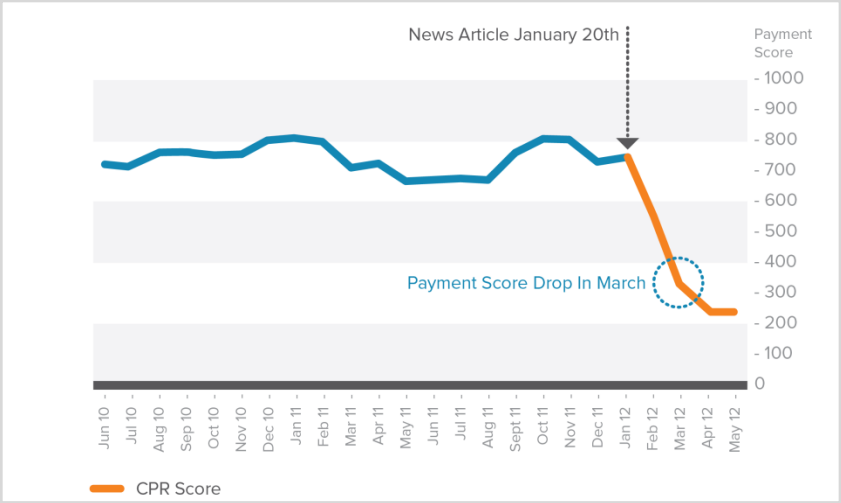
But, does simply adding more data to your credit analysis process improve your understanding of companies' financial health? If you're amassing conventionally available business information, the answer is almost certainly no.

The decline of Mayville Products Corporation: a tale of two companies

On January 20th of 2012, the Mayville Products Corporation of Mayfield Wisconsin announced that it would close its factory doors at the end of March and lay off all 130 of its employees. For a year and a half prior to this announcement, two different sets of financial information revealed two dramatically different pictures of the company's fortunes.

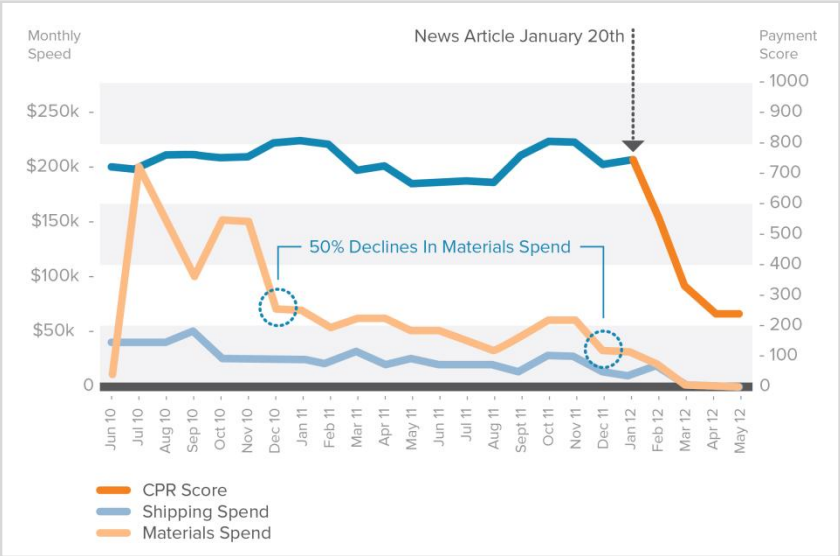
Company View #1: Business as usual

For most suppliers and creditors, the collapse of Mayfield Products must have come as a jarring surprise, since the company's credit ratings had consistently portrayed solid credit-worthy performance for years. And nothing in the company's public-facing information revealed anything alarming which likely gave unsuspecting suppliers a false sense of confidence which led them to extend credit to Mayville.

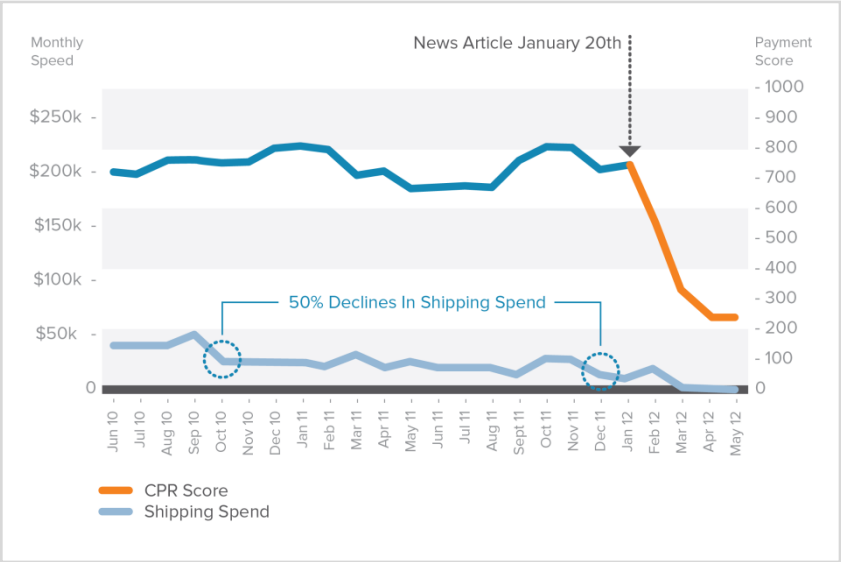


Business as usual - until it was too late to react. Conventional credit scoring gave creditors no clue regarding Mayville Product Corporation's impending demise.

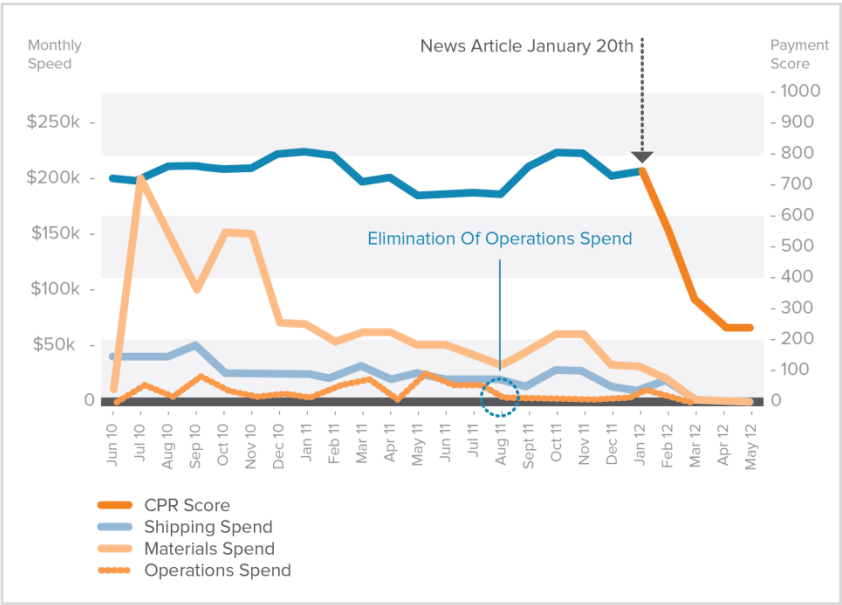
Company View #2: An organization in crisis



Red flag A: decline in materials spend
For a company in the business of manufacturing things (cabinets, frames, racks and mounting products, in this case), sudden drops in material purchases, signals an anticipated drop in manufacturing volume, presumably due to declining orders or weak sales forecasts.



Red flag B: decline in shipping spend
The drop in shipping spend logically follows a reduction in manufacturing output, or weak sales, or both. Either way, it translates into reduced revenues.



Red flag C: decline in operations spend
Every business requires a broad range of products and services—from paper clips, to printer cartridges to telecommunications and computer maintenance— to support normal business operations. Significant reductions here signal a slowing of business, an effort to conserve cash, or both.

The predictive power of B2B purchasing data adds a new dimension to credit analysis

Conventional payment data will always have its place, but the manner in which companies spend their money speaks even greater volumes about their priorities and direction. The details and trends revealed in these spending areas can tell you if a company is experiencing growth or decline, if it is expanding and adding personnel, or contracting and treading water financially.

This revolutionary approach has drawn the interest of a number of savvy industry analysts, including Bill Warmington of Raymond James and Associates, who said, *"We believe that this type of data will significantly improve a user's ability to … model credit risk because purchase behavior is a better leading indicator of a company's health than payment behavior…"*[1]

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>
> – Bill Warmington, Analyst
> Raymond James and Associates

Defining the essential ingredients for a B2B credit solution

To provide practical, sustainable value to credit managers and financial executives, an ideal solution must incorporate five essential characteristics:

1. A vast, whole-market data set: The creation of a massive volume of accurate company purchasing behavior information depends on securing data from a wide variety of reliable sources. This assures broad portfolio coverage—including virtually all of your customers, prospects, suppliers and other companies of interest.

2. Categorized purchasing information: This means segmenting B2B spend into meaningful categories, such as shipping and transportation, raw materials and business operations, as well as key subcategories. Not only is a company's spend in each category important, but the relationship between spend categories provides a higher-order analytical insight; telling you what they'll likely purchase in the future, as well as the trend of their general financial health. This clearer, more complete picture is extremely valuable when making credit and risk-related decisions.

3. Intuitive and actionable data presentation: To be of significant value to credit professionals, B2B purchase data must be organized and presented in a form in which volumes of information can be received and understood in just a glance. Trends and scores must be brought into sharp focus to empower smarter, faster decisions.

4. Ability to detail individual companies: The solution must offer a deep range of report options to enable users to easily drill into the purchase behavior details of individual customers, prospects and suppliers.

5. The means to easily append customer records: The constantly updated purchase behavior data collected for individual companies must be easily integrated into existing databases and credit application processes. Users should find it easy to incorporate purchasing insights into business processes and systems through batch file appends and system-to-system XML interfaces. The new, expanded information should be easy to access whenever, wherever and however it's needed.

The impact on credit management—and beyond

B2B purchase behavior can be one of your most valuable corporate assets—a game-changer that dramatically improves risk management by providing visibility into the blind spots created by traditional credit management systems. It can also serve as a powerful new engine for revenue growth. The potential impact on your business includes:

1. Adding a revolutionary new dimension to credit and risk management: While payment history is a useful factor in defining a current or potential customer's credit worthiness, purchasing behavior is a new breakthrough that offers up timely insights into your customers' and prospective customers' overall financial health; and that can, substantially streamline the credit application process. As a leading indicator, purchasing data can reveal hidden financial strengths or detect troublesome financial trends months before they show up in credit and payment reports. Your credit managers can, for the first time, rapidly and confidently identify your most valuable customers and prospects.

2. Enabling a smarter, more effective allocation of both credit and sales resources: Credit analysis and sales prospecting too often require laborious searching through databases and other information. In assessing information overload, an Aberdeen report2 found that on average, salespeople in companies studied spent the equivalent of 200 hours per year in non-productive time in search of customer data. This does not take into account the "ever-multiplying layers of web-based data available on customers, prospects, competitors, as well as user-generated content within posts, tweets and social connections..." As a more complete financial barometer, purchasing data can improve the effectiveness of the two-way relationship between sales and finance, while also saving time for both functions. Sales gets deals approved better and faster, and finance can alert sales to up-sell opportunities with customers that deserve higher credit limits..

3. Creating a deeper understanding of customer potential: With purchase behavior details across a wide range of products and services, you can more thoroughly profile each customer. You'll have the means to accurately gauge your current and potential "wallet share" with a specific customer for your class of product, and also see details about the customer's payment habits with companies like yours.

Moody's Analytics: optimizing a new class of service with innovation and maximum business value

Moody's Analytics has spent years developing and refining the industry's only comprehensive B2B purchase-based financial data and information service to incorporate the five essential ingredients detailed above. The other vital dimension of this remarkable new business asset is the manner in which it is delivered to you. The service model is unique in a variety of ways:

- Moody's Analytics offers a first-ever view into $1.6 trillion in purchasing behavior for over 20 million company locations.
- Moody's Analytics intuitive, infographic style dashboard and reports quickly communicate reliable, relevant information that empowers managers to automatically monitor companies and make crucial decisions.
- The easy-to-understand score indicates deep purchase behavior insight categories, including shipping and transportation, raw materials and business operations, as well as over 40 product subcategories.
- A browser-based delivery model, with perpetual innovation and improvement, and an every-three-week release cycle.
- A broad array of intuitive reports for credit, finance, sales and marketing decision makers.
- The ability to streamline credit applications, and other time-and-effort saving benefits.

- A market-changing, free to use for companies becoming members of our community, and optional Moody's Analytics B2B Insight Reports and risk data ranging from only $2.50 to $6.00 each.
- Ability to incorporate new data into automated processes with batch and API easily and with flexibility.
- Continuous data contribution outreach to broaden the data pool.
- A relentless focus on delivering the world's most valuable B2B insights.

Conclusion

Thanks to the Moody's Analytics Pulse B2B information service and associated B2B Purchase Insights reports, companies can access accurate B2B purchasing insights for the first time ever. This new information provides a more complete and accurate view that is simply unavailable with conventional credit reporting alone. Organizations can thus boost the effectiveness of credit analysis and management and make better, timelier decisions.

About Moody's Analytics

About Moody's AnalyticsMoody's Analytics provides financial intelligence and analytical tools supporting our clients' growth, efficiency and risk management objectives. The combination of our unparalleled expertise in risk, expansive information resources, and innovative application of technology helps today's business leaders confidently navigate an evolving marketplace. We are recognized for our industry-leading solutions, comprising research, data, software and professional services, assembled to deliver a seamless customer experience. Thousands of organizations worldwide have made us their trusted partner because of our uncompromising commitment to quality, client service, and integrity. Concise and timely economic research by Moody's Analytics supports firms and policymakers in strategic planning, product and sales forecasting, credit risk and sensitivity management, and investment research. Our economic research publications provide in-depth analysis of the global economy, including the U.S. and all of its state and metropolitan areas, all European countries and their subnational areas, Asia, and the Americas. We track and forecast economic growth and cover specialized topics such as labor markets, housing, consumer spending and credit, output and income, mortgage activity, demographics, central bank behavior, and prices. We also provide real-time monitoring of macroeconomic indicators and analysis on timely topics such as monetary policy and sovereign risk. Our clients include multinational corporations, governments at all levels, central banks, financial regulators, retailers, mutual funds, financial institutions, utilities,

residential and commercial real estate firms, insurance companies, and professional investors.Moody's Analytics added the economic forecasting firm Economy.com to its portfolio in 2005. This unit is based in West Chester PA, a suburb of Philadelphia, with offices in London, Prague and Sydney. More information is available at www.economy.com.Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). Further information is available at www.moodysanalytics.com. DISCLAIMER: Moody's Analytics, a unit of Moody's Corporation, provides economic analysis, credit risk data and insight, as well as risk management solutions. Research authored by Moody's Analytics does not refl ect the opinions of Moody's Investors Service, the credit rating agency. To avoid confusion, please use the full company name "Moody's Analytics", when citing views from Moody's Analytics.

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877.569.7376

1 Commercial Credit Industry Update – Technology Industry Brief, July 23, 2012, Raymond James and Associates
2 Leveraging the 360 Degree Customer View to Maximize Up-Sell and Cross-Sell Potential –Benchmark Report, September 1, 2011, Aberdeen Group